IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF WEST VIRGINIA

GERALD W. CORDER,

Plaintiff,

v. Case No. 1:18-00030

ANTERO RESOURCES CORPORATION,

Defendant.

VIDEO DEPOSITION OF ALVYN A. SCHOPP

Thursday, January 23, 2020

1:43 p.m.

Steptoe & Johnson

400 White Oaks Boulevard

Bridgeport, West Virginia

EXHIBIT C

operating expenses in our contract we agreed to pay for. They are on there, but there is no -- any margin or profit that MarkWest makes is embedded in the fee.

Q There are some documents that Hank has produced to us and maybe that will help a little bit in understanding the bills and how you accounted, but let me ask the question this way.

Does Antero break out in terms of what it is going to charge off to the lessor specific costs that is incurred by MarkWest?

A No.

Q So in terms of if Antero is going to pay a lessor for a particular NGL product, is it fair to say that the MarkWest bill in its entirety is taken off of whatever that NGL sold for?

A No. I would say no. I think I understood the question is that are any of those costs netted against the original NGL sales price and the answer is no.

We show the NGL gross price, and we show a deduction of which here are the dollars and the items that make up our processing fee, and MarkWest would be one of those bills. Then that is shown separately on the leasehold statement.

Q How would that be designated?
A PRC-2.
Q Is PRC-2 a number of things?
A Yes.
Q Can you identify what would be incorporated into PRC-2?
A I think I know the majority of it, but there might be some little ones that are in there, but basically it would be predominantly the MarkWest processing fees and the processing charges associated with processing the gas.

It would include the fractionation fees of MarkWest, and it would include some fees from energy transfer Mariner East.

Those are variable. Sometimes there's those fees and sometimes there's not, which actually they transport to sell the NGL's, some of the NGL's.

So I think if you took those three sets, you would get 95 percent because those are fairly substantial costs.

There's some other little ones in there. I haven't looked at that statement in a while, but there is a breakout that shows exactly what those are and how they are allocated.

Q When you say there is a breakout, that breakout is internal to maybe MarkWest and Antero, but certainly Antero?

A Yeah, because they are not all from MarkWest, so MarkWest wouldn't even see them all because there's other people in there besides MarkWest, but there is a list every month that says here is exactly what each of those bills are and what that total is.

Q So besides MarkWest, you may not be able to recall all of the specific companies the charges would have come from, but can you give me some of them?

A Energy Transfer is one that I would say would be the largest one, outside of MarkWest.

Q Energy Transfer would be?

A They are an NGL company out of Houston. They have what they call their Mariner East Complex, and that Mariner East runs liquid pipelines. So that would be the one that I am thinking of.

Q The pipeline would run from where to where in West Virginia?

A It would leave the fractionation plant that cracks them into separate products in Houston, Pennsylvania. Basically, that pipeline runs from Houston, Pennsylvania, to Marcus Hook, Philadelphia, to

an LNG plant that then puts them on a boat to Europe, Asia, wherever those specific products might go.

Q Where specifically geographically is the plant or plants that MarkWest -- that processes the gas to fractionate isobutane and butane?

A I would say the process, to use that term, is the Sherwood facility, which is here in Doddridge County off of Route 50 near the Sherwood exit. It is just past Salem on 50 going west.

It is in Doddridge County, the Sherwood plant. That is where our raw gas goes, and they basically take that, and then there is a pipeline that the liquids then are still combined, and they go in a pipeline then to Houston, Pennsylvania, which is kind of eastern southwestern Pennsylvania. That is where the fractionators are that crack it into separate individual products.

Q Who owns the line that takes it from the Sherwood plant to Pennsylvania?

A MarkWest.

Q So those charges would be included in PRC-2 probably? Do you know?

A My recollection is they are included in the processing fee. There might be a small NGL line fee, but

if it is, yes, it would be in that PRC-2.

Q So does the Sherwood plant, for the most part, process the gas to satisfy putting it into the transportation line, interstate transportation line for natural gas, as well as -- well, there has to be a second plant, but does it do anything besides process the gas to make it acceptable to be sold or transported on interstate lines?

A Basically, you could get three products out of the plant. You could get ethane separately. You get Y grade NGL, which goes to Houston, PA, and then you get residue gas that we would ship across our pipes to sell to different markets.

Q When you say you transmitted on your lines, that is the natural gas?

A Antero Resources Corp, there's residue lines that connect to different header systems so we can divert the gas across other third-party lines to get that gas to where we would want to at market.

So there is a system of pipes behind the plant that are still owned by MarkWest that basically get separate headers that we can then connect.

I think Antero might even own one small line that goes to another inner junction with an

Q What is this then? I am glad I asked.
A So this is really the sheet that determines whether or not if someone has a market enhancement clause, as to whether it is appropriate to give them a transportation TRN-3 charge.
Q When you say a market enhancement transportation charge, can you describe what that is?
A Yes, sir.
Q In Antero's terms.
A Antero's term is, if it is appropriate in the lease for a market enhancement, there may be what we would call TRN-3.
To sell something in Chicago, let's use Chicago, we incur a significant amount of cost to get to Chicago. So if I paid 50 cents to get to Chicago, I sell the Chicago at Chicago sales price.
The way we determine this is we basically say, if you have a market enhancement clause, in other words, if I can get you a better price, you are going to partner with me on some of those costs to go get you a better price is kind of the way we look at it.
So there is the local market, and that local market at this point, it was all of the -- it is what could we get at TCO pool, what could we get TETCO M-

2, what could we get for Dominion South, what was that local price.

Basically, we compare that to the WASP, right? So we did significantly better than where we would have sold that at a local price and so then there was a six-cent differential.

What did it cost us to get that Chicago price at 2.50; well, it cost me 22 cents, right? So we don't charge that to people who have market enhancement. We only charge the difference that they got the benefit for.

So if the price would have been a dollar higher, they would have got charged the whole 22 cents, not the 6, because they would have gotten 100 percent of the benefit for that. So this would be calculating if TRN-3 is appropriate, what would TRN-3 be for them.

Q I take it this is something that is routinely done?

A It is a regular part of our monthly process. Many times, it is zero. It is month-to-month. If the indexes are narrow, then there is really -- Chicago price is pretty close to our local price, so there is no market enhancement by taking it to Chicago.

Q The thing that I am not totally clear on is

what lease would this apply to, what type of lease.
A What we would call market enhancement lease. It has market enhancement language.
Q In other words, it would specifically say in there that if we enhance the value of the sale price by some definition, --
A Yes.
Q -- that we are allowed to charge you, --
A Yes.
Q -- and it goes into this detail in that lease that you are talking about here?
A Well, this is done without regard to lease, and then when we do that lease analysis as to what charges they get, it is flagged for that lease as to whether or not if there is a TRN-3 charge deemed appropriate that month, does this lease get it or not.
That is done on a lease-by-lease basis. So even though it is here, if every lease didn't get one, then nothing would be charged.
(WHEREUPON, a recess was taken, after which the following proceedings were had.)
(WHEREUPON, a document was marked for purposes of identification

a tab, I believe, on overall large allocation spreadsheets with multiple tabs.

This is one of the tabs where we are recording the net activity from all of this process into our general ledger for our financial statements.

So basically, what we have is we have, if you see the GL accounts down, Enertia is our accounting system. The GL accounts are down the left.

The descriptions for them and debit or credit, they put them in the spreadsheet, and what they have the ability then to do is upload these journal entries into our accounting system to account for the monthly sales.

Q One of the things I wanted to ask you, the volume that the lessors are paid for, is that the total volume coming out of the well?

A It is wellhead volume, yes.

Q So the fuel loss and unaccounted for gas would have nothing to do with what a lessor would get paid; is that correct?

A That is correct. We add fuel back to our gross numbers to make sure it is gross wellhead.

Q When you say fuel, that would be fuel and lost and unaccounted for?

A Yes, sir.

(WHEREUPON, a document was marked for purposes of identification as Deposition Exhibit No. 15, a copy of which is attached hereto and made a part hereof.)

BY MR. MASTERS:

Q I am showing you Exhibit 15. Can you tell me what 15 is?

A This looks like just another look at the summary for November 27, Team WASP. It shows total MMBTU, total price received from that pipeline, and total dollars with the appropriate reconciling items.

Q Now, they have volume MCF Marcellus, 55,487,152, and then it has got the MMBTU's and the wellhead average prices, correct, loss price?

A Yes.

Q Then it has got the Dominion and Columbia, et cetera?

A My guess is that is what the indexes were that month.

(WHEREUPON, a document was marked for purposes of identification as Deposition Exhibit No. 16, a copy

A That would have been the amount of receipt residue gas that was allocated to this well, both in MCF and MMBTU. D-T-H is decatherm, another way of saying MMBTU.
Q That is FL&U. I understand that.
A Wellhead, yes.
Q Gross sales, and I assume the 2.49 paid whatever is the loss?
A Yes, sir.
Q Fuel value, F-U-L, what is that?
A If you notice, the first wellhead fuel and unaccounted for was in decatherm. So what is the value of that fuel is the 2.49 WASP times the decatherm of fuel. So the fuel value dollars was 4,282.
Q Pool transport, that $2.8 million, I assume is for the whole?
A That is for transport.
Q Of the whole thing?
A For transport out of the local pool.
Q Then T-R-N is what?
A That is transport that is to the local pools.
Q To local pools?
A Yes, sir. When we talk about TRN-3 for

market enhancement, --
Q Yes.
A -- we don't include any of that, so we compare that market enhancements for did we get a better price because we took it somewhere far away, Chicago.
We would include those transportation costs in our TRN-3 calculation, but to get it to TCO, Dominion South and local pools, that is the transport to do that that we don't include in our TRN-3 calculation.
Q So that would be TRN pool transport. TRN is including --
A That is transportation to get to the local pricing.
Q Pool transport TRN-3 --
A Is from the local pools to LA, Chicago, Michigan, far away places.
Q Then you have low pressure gathering. You talked about that. High pressure gathering; you talked about that.
A Correct. Those are when I said are they AM. So in other words, you notice at gathering three, they are all gathering three because they are Antero gathering fees. Five sixty-eight is the total page.
Q If you look on page 568 at the Enertia tie-

could be subject to, if it is applicable in that month, they could be subject to a TRN-3 charge.

So partition leases, Nicholson leases, that is how they are currently being accounted for in the system. So now we have the three big leases, which was the Gerald Corder lease, the Randall Corder lease and the Roger Corder lease, Roger Corder being the biggest lease.

His lease was different, had different lease language than the Gerald Corder and Roger Corder lease. So at the time of when we were doing that, basically, his lease was recorded such that he is getting potentially -- no, he doesn't get any TRN-3, and he would get the royalty of the higher of, if shrink was higher than net NGL value, he would get a percentage of that.

If NGL net value was higher, he got a royalty percentage based on gross NGL's on the Roger Corder lease. All right, so that took care of what -- that would be the way the Roger Corder lease was recorded at the time of the settlement, and then I believe there was an internal reallocation between the family that some of the people came into the Roger Corder lease, some brothers and sisters.

All of those people that came into the post-settlement and came in after that allocation, all of

their royalties are treated exactly like I said Roger's were, okay?

Q Which were? I'm sorry.

A Roger's lease was the one that said no TRN-3 and that the way his royalty is being calculated is, if shrink for that well was the highest, he got a percentage of shrink; if net NGL value is higher, he got a percentage of gross NGL's.

There was no PRC-2 either on his lease. He would not see any PRC-2 on the Roger Corder lease. When the brothers and the sisters were brought into that lease as a percentage, that is the way, no PRC-2, no TRN-3. So that lease has always been recorded that way.

If we go to the Roger Corder lease -- no, the Randall Corder lease and the Gerald Corder lease, pretty much together, they make about the same lease acreage as Roger's.

When we did the settlement, we agreed to treat those two leases in the settlement statement, not based on the lease language, to treat it like we had been treating Roger Corder's lease.

The leases certainly did not dictate that, and so as part of them signing that settlement statement, we now treat -- this is where it gets -- if I can get it